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Commissioner Memorandum

TO: Chairman Peter M. Lake
Commissioner Lori Cobos
Commissioner Jimmy Glotfelty
Commissioner Kathleen Jackson

FROM: Commissioner Will McAdams WM

DATE: May 24, 2023

RE: May 25, 2023 Open Meeting, Item No. 8 – Docket No. 53625 – *Application of Southwestern Electric Power Company for Certificate of Convenience and Necessity Authorization and Related Relief for the Acquisition of Generation Facilities*

I have significant concerns with SWEPCO's amendment to its certificate of convenience and necessity for the generation facilities in question. In my role as this commission's representative to the Southwest Power Pool (SPP) as an officer on the Regional State Committee and as chairman of the Resource and Energy Adequacy Leadership Team (REAL Team) charged with ensuring resource adequacy for SPP, I am keenly aware of the pressing need for dispatchable generation in that system. I believe that the proposal for decision (PFD) contains a number of incorrect conclusions and should be rejected.

First, I believe that SWEPCO did not establish a need for the proposed generation facilities under PURA § 37.056(c)(2). Rather than pursuing less expensive, common sense remedial steps, SWEPCO has chosen to retire the Pirkey plant a full twenty-two years before the end of its useful service life.[1] Whether or not that retirement was prudent is another matter being addressed in other areas, but the fact of the retirement remains nonetheless, and I will discuss it here in these limited terms. SWEPCO has made similar retirement decisions with its Dolet Hills and Welsch plants. These retirements have created a false appearance of a need for generation and SWEPCO has not pursued far less expensive alternatives to keep dispatchable generation online. Specifically, SWEPCO has not taken the obvious step of formally requesting permission to combine Pirkey's east and west impoundments to extend compliance with federal regulations.[2] And more importantly, I am persuaded by the testimony of both PUC Staff and ETEC-NTEC that the investment needed to retrofit the impoundment ponds would cost $40.6 million - far less than the proposed $2.2 billion for the three proposed facilities.[3] Consequently, SWEPCO has not adequately demonstrated that, absent the artificial need created through these retirements, a capacity need exists. Ultimately, the apparent need for generation has been created

[1] Rebuttal Testimony of James F. Martin at 17.

[2] Direct Testimony of Sharryhan Ghanem at 8-9.

[3] *Id* at 8. Joint Exceptions to the Proposal for Decision of East Texas Electric Cooperative, Inc. and Northeast Texas Electric Cooperative, Inc. at 4.

326

by SWEPCO's own poor decisions and we should not reward nor endorse those poor decisions here.

Second, SWEPCO did not adequately consider alternatives to the new generation facilities. In 2021, SWEPCO issued three requests for proposals (RFP) for only three options: wind, solar, and short-term capacity purchases.[4] This decision to limit the RFPs to these three options was based on flawed assumptions and led to inadequate consideration of alternative generation options. Although Texas law does not require an RFP process, when one is undertaken, we may nevertheless review it to see if the applicant properly considered alternatives to the proposed facilities. Among a litany of flaws in the assumptions underlying that RFP process, I would point out that the underlying analysis did not give enough consideration to the increased need for transmission to support three intermittent facilities, nor the potential increases to congestion and locational marginal prices caused by those facilities.[5] The final projected capital cost for the three proposed resources was nearly 80% higher than the cost in the 2020 analysis.[6] The analysis also failed to consider the approximately $200 million that SWEPCO will try to recover from ratepayers in unrecovered costs, and the intervening cost of capacity purchases that would be necessary while waiting for these proposed facilities to be built.[7] Finally, the analysis failed to consider that if SPP has a capacity shortage, which SWEPCO is now contributing to with these retirements, those deficiencies will cost ratepayers in SWEPCO's territory between 1.25 to 2 times the cost of new entry for every megawatt of deficiency.

Absent proper consideration of the above costs, I assert that SWEPCO failed to adequately evaluate the available alternatives. With more believable cost assumptions, the cost of converting the Pirkey plant to natural gas, similar to our decision in Docket No. 52485 for the Harrington Generation Station for SPS, would be more reasonable.[8] Moreover, SWEPCO failed to adequately consider purchase power agreements (PPAs) as an alternative to the proposed facilities. That failure led the Louisiana Public Service Commission to deny a settlement agreement to approve these same proposed facilities on April 26, 2023.[9] I would ask that we take official notice of that proceeding here. In a similar matter, Docket No. 51215, this Commission denied a solar generation application by Entergy in part because the applicant had decided not to pursue a PPA solution even though it had higher projected net benefits.[10] Under these facts, I believe SWEPCO needed to thoroughly consider PPAs and natural gas conversion in its RFP process for me to be confident that they adequately considered alternatives to these proposed intermittent facilities.

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[4] Texas Industrial Energy Consumers' Exceptions to Proposal for Decision at 10-11 (citing Tr. at 71 (Brice Cross); TIEC Ex. 7; SWEPCO Ex. 6).

[5] SWEPCO's response to CARD RFI 4-2.

[6] Direct Testimony and Attachment of Scott Norwood at 15-16.

[7] Direct Testimony and Exhibits of James Striedel at 18.

[8] *Application of Southwestern Public Service Company to Amend its Certificate of Convenience and Necessity to Convert Harrington Generation Station from Coal to Natural Gas*, Docket No. 52485, Order (Sept. 29, 2022); Among the most problematic of SWEPCO's assumptions is their assertion that they would not be able to build any gas-fired resources until 2029 (SWEPCO Ex. 14, Rebuttal Testimony of James F. Martin at 49.)

[9] *Application of Southwestern Electric Power Company for Certification and Approval of the Acquisition of Certain Renewable Resources and Natural Gas Capacity Contracts in Accordance with the MBM Order, the 1983 and 1994 General Orders*, Docket No. U-36385. Available at: https://lpscpubvalence.lpsc.louisiana.gov/portal/PSC/DocketDetails?docketId=28849

[10] *Application of Entergy Texas, Inc. to Amend a Certificate of Convenience and Necessity for the Acquisition of a Solar Facility in Liberty County*, Docket No. 51215, Order at FoF 52 (Oct. 19, 2021).

Third, I believe that SWEPCO failed to demonstrate that the new generation facilities will result in an improvement of service, consistent with PURA § 37.056(c)(4)(E) and, in fact, I believe that this application will likely result in a decline in service under PURA §§ 14.001 and 14.101(b)(2)(C). I concur with testimony from ETEC-NTEC asserting that replacing a dispatchable generation facility with intermittent generation facilities will harm reliability.[11] I know firsthand from my conversations with SPP Staff that as dispatchable generation resources are retired and removed from the SPP power regions, customers are continuing to see a degradation of grid reliability and resilience. My sense of this degradation was confirmed by testimony provided by ETEC-NTEC.[12] If SWEPCO had more adequate capacity to meet its needs and was proposing intermittent facilities to diversify its resource mix, its arguments might be somewhat persuasive. However, SWEPCO has chosen to artificially create a shortage and is proposing less reliable generation to bridge the gap. These proposed facilities will not result in an improvement in service simply because the facilities are less reliable.

SWEPCO asserts that the facilities will have an accredited capacity of 237MW, down from the nearly 1000MW of nameplate capacity. However, as TIEC's arguments assert and as confirmed by my experience leading the SPP REAL Team, these facilities will likely have a lower future accreditation than even that low number.[13] SWEPCO fails to properly account for the change in accreditation methodology underway in SPP, which the ALJs acknowledged the risk of in this matter.[14] Like many system operators around the country, including ERCOT, SPP is reevaluating its policy regarding the capacity contribution of intermittent resources at peak.

Concurrently, SWEPCO has been overly optimistic in thinking that these facilities will be operational by 2025. Given what we know about the delays in the generation interconnection queue in SPP, it is more realistic for us to assume that these facilities will take longer to come online – perhaps not until 2026 or 2027. Consequently, SPP's 2022 ELCC study results indicate that with increasing amounts of wind resources, the capacity value provided by those resources, as a percentage of nameplate capacity, tends to decrease.[15] As such, as these proposed facilities come online later in time, they will have even less capacity value. Therefore, these proposed facilities will have even less accredited capacity than SWEPCO claims and what capacity they would provide is less reliable than the dispatchable generation they are replacing and will not result in an improvement in service for Texas ratepayers – and, in fact, will likely result in a decline in service.

Finally, in contrast to the conclusions in the PFD, these facilities will not lower costs for ratepayers. Even if we believe the accredited capacity of 237MW, these facilities are shockingly expensive. Asking ratepayers to foot the bill for $2.2 billion to acquire 237MW of capacity equates to $9.2 million per megawatt of accredited capacity is unacceptable.[16] In contrast, the recently approved Orange County Advanced Power Station in Docket No. 52487 will cost ratepayers approximately $1.6 billion for 1,158MW of accredited capacity, equaling $1.36 million per

[11] Direct Testimony and Exhibits of Matthew J. King at 5.
[12] Striedel Direct at 29-30.
[13] TIEC's Exceptions to the PFD at 14.
[14] Proposal for Decision at 40-41.
[15] TIEC's Exceptions to the PFD at 14 (citing TIEC Ex. 14 at 5).
[16] TIEC's Exceptions to PFD at 2.

megawatt.[17] SWEPCO's proposed facilities are almost seven times more expensive per megawatt of accredited capacity and result in less reliable power.

SWEPCO claims that Production Tax Credits (PTCs) will offset some of these costs, however the production output modeling for generation by the proposed facilities used a P50 assumption for production. P50 case assumes that the proposed facilities have a 50% chance to perform below expected levels and produce less output, and therefore less PTCs, than projected.[18] Consistent with our findings in Docket No. 51215, SWEPCO should have used a P90 case as a reasonable model to determine output.[19] A P90 case projects what the facilities would achieve 90% of the time and, in this case, would inevitably result in an even lower output than the P50 case. Therefore, it is far more likely that SWEPCO has greatly overstated how many PTCs it will produce with these facilities and its claimed savings to ratepayers are equally overstated.

For ratepayers, this means increased energy bills and fewer tools available to the balancing authority to ensure that continuous and adequate service is reliably provided. I concur with ETEC-NTEC's analysis that the average SWEPCO residential customer will see their monthly bill increase. Texas retail base rate revenues would likely increase by 18.2%, with some customer classes seeing increases as high as 21.5%.[20] In fact, the addition of these facilities would increase SWEPCO's net production plant in service by 56%.[21] SWEPCO maintains that reduced fuel cost savings and PTCs will largely offset the increased energy bills. However, as mentioned above, the increased need for transmission, the impact on locational marginal prices and congestion, intervening short-term capacity purchases, potentially $200 million in unrecovered costs for Pirkey's retirement, and payments for capacity deficiencies were not considered. This lack of consideration will likely negate the fuel cost offsets, while simultaneously the PTCs are likely overstated, leaving Texas ratepayers on the hook for more expensive and less reliable generation facilities.

I recommend that we reject the proposal for decision and deny the application. In my view this would provide a catalyst to restart a dialogue on how SWEPCO may reliably, and cost effectively, serve Texas consumers considering the profound changes in system resource adequacy policies that are happening in SPP.

I look forward to discussing this matter with you at the May 25, 2023 open meeting.

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[17] *Application if Entergy Texas, Inc. to Amend its Certificate of Convenience and Necessity to Construct Orange County Advanced Power Station*, Docket No. 52487, Order on Rehearing at FoF 46, 49 (Jan. 12, 2023).

[18] *Id.* at 16 (citing Tr. at 321 (Brice Cross)).

[19] Docket 51215, Order at FoFs 133, 134 (Oct. 19, 2021).

[20] Direct Testimony and Exhibits of James W. Daniel at 13-14.

[21] TIEC's Exceptions to the PFD at 7 (citing TIEC Ex. 21).